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ZNR UUUUU ZZH
P 240655Z FEB 09
FM AMCONSUL HONG KONG
TO RUEHC/SECSTATE WASHDC PRIORITY 6948
INFO RHMFIUU/DEPT OF HOMELAND SECURITY WASHINGTON DC PRIORITY

UNCLAS HONG KONG 000333

SENSITIVE
SIPDIS

STATE FOR EAP/CM

E.O. 12958: N/A
TAGS: [ETTC](#) [PGOV](#) [PREL](#) [HK](#)
SUBJECT: CONGRESSIONAL STAFFERS HEAR FROM HKG ON SFI

REF: 08 HONG KONG 2277

11. (U) This is an action request.

12. (SBU) Summary: Hong Kong Trade and Industry Department Deputy Director General Vivian Lau told a visiting U.S. Senate Staff Delegation (StaffDel) on February 19, that unless the Hong Kong Government (HKG) receives notification about the Secure Freight Initiative, its future direction, the current pilot at Hong Kong's seaport would end as scheduled on April 30, 2009. She emphasized that HKG may be willing to extend the program, but to do so it would need to provide the industry with strong and convincing argument as to the trade facilitation value and the safety to health of the equipment. This process would require time, and unless the U.S. Government (USG) provided guidance and direction as to the future of SFI soon, the pilot program would end on April 30, 12009. End Summary.

13. Action Request: Request Department/DHS provide direction as to the future of the Secure Freight Initiative (SFI) program and the implications for Hong Kong's pilot project. End Action Request.

14. (SBU) Background: February 18-20, 2009, 11 staff members of the U. S. Senate Finance Committee visited Hong Kong. The visit focused on discussions of trade facilitation, trade security, and customs enforcement with Hong Kong Government and private sector representatives. The StaffDel met with the Hong Kong Intellectual Property Department, Hong Kong Customs Enforcement and Excise Department, Hong Kong Trade and Industry Department, and members of the American business community. This cable reports their discussion with the Hong Kong Trade and Industry Department (HKTID) on the Secure Freight Initiative (SFI). Septel will report other aspects of the trip. End Background.

15. (SBU) During a February 19 meeting with members of the HKTID, delegation leader International Trade Counsel Amber Cottle explained that the existing U.S. legislation mandating 100 percent scanning would take effect in 2012, less than three years away. HKTID Deputy Director General Vivian Lau responded that international consensus was growing that 100 percent scanning would not be achievable or sustainable. She noted that the World Customs Organization and the governments of Japan and the European Union had expressed this view. Lau pointed out that even newly appointed DHS Secretary Napolitano had publicly questioned the utility of 100 percent scanning. In particular, Lau questioned what options the USG would make available to countries that would not be able to comply, not because of unwillingness, but because of technical difficulties.

16. (SBU) Lau emphasized that Hong Kong has been at the forefront of implementing trade security programs (e.g., CSI, SFI, export controls). However, Lau said two main concerns would make it difficult for Hong Kong, a large and important

logistics and shipping hub, to implement mandatory 100 percent scanning:

- Any implementation of 100 percent scanning would require consultations with the public and the shipping trade. The HKG would face difficulties convincing the trade to continue or expand the SFI program given that questions regarding the trade facilitation value of SFI remain. In particular, Lau remarked that cargo scanned at Hong Kong apparently was not receiving any expedited customs clearances at U.S. ports of debarkation. She forecast opposition from the trade to such a program that demanded much, but offered little trade facilitation benefits.

- As a large transshipment center where cargo operations take place in midstream as well as on land, it would be impossible for Hong Kong shipping lines to comply with the mandate unless cargo is offloaded onto land for the purpose of scanning, then reloaded onto U.S.-bound vessels, creating inefficiencies and causing delays in the process. Note: Cargo barges from the Pearl River Delta (PRD) currently transfer their loads directly to container vessels at sea. End note.

17. (SBU) Cottle told Lau that the U.S. law requiring 100 percent scanning would not be going away, so trying to move toward this mandate would be beneficial to everyone. For her part, Lau commended the StaffDel for their efforts to ensure a balance between national security and trade facilitation, citing that "it is an art." However, she explicitly stated that unless the HKG receives notification about the SFI program's future, the ongoing pilot would terminate on its expiration date of April 30, 2009. She emphasized that the HKG might be willing to extend the program, but to do so it would need to provide the trade with strong and convincing argument as to the trade facilitation value and overcome concerns that the equipment was harmful to human health. This process would require time, thus necessitating guidance soon from the U.S. Government.

18. (SBU) The StaffDel did not have a chance to clear this cable.
DONOVAN